

April 25<sup>th</sup> 2022

World Café

# **Economic implications of Russia's invasion in Ukraine: Trade channel**

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## Overview

- What global markets are primarily affected?
- Trade impact in the EU and EU Neighbourhood
  - Food
  - Energy
- Impact of a stop in EU energy imports from Russia
- Medium-term structural changes

# Economic cost of invasion for Ukraine will be dramatic: Regions accounting for 40% of GDP affected directly

## Main characteristics of regions on the front line

	GDP	Industrial production	Goods exports	Services exports*	Agricultural production	FDI stock	Population, million people
Year	2019	2020	2020	2019	2020	2020	2020
Donetsk	5.2	10.3	8.0	1.1	3.3	4.7	4.1
Dnipropetrovsk	9.8	17.2	15.4	1.8	6.5	11.7	3.1
Kharkiv	6.2	7.1	3.0	4.6	6.4	2.1	2.6
Kherson	6.2	7.1	3.0	4.6	6.4	2.2	2.6
Luhansk	1.0	0.8	0.3	0.4	2.2	0.7	2.1
Mykolayiv	2.3	2.5	4.6	5.9	3.1	1.4	1.1
Odesa	5.0	2.8	2.8	9.9	2.3	3.5	2.4
Zaporizhzhya	3.9	7.6	5.9	2.4	4.0	3.4	1.6
<b>Total</b>	<b>39.6</b>	<b>55.4</b>	<b>42.9</b>	<b>30.7</b>	<b>34.2</b>	<b>29.7</b>	<b>19.5</b>

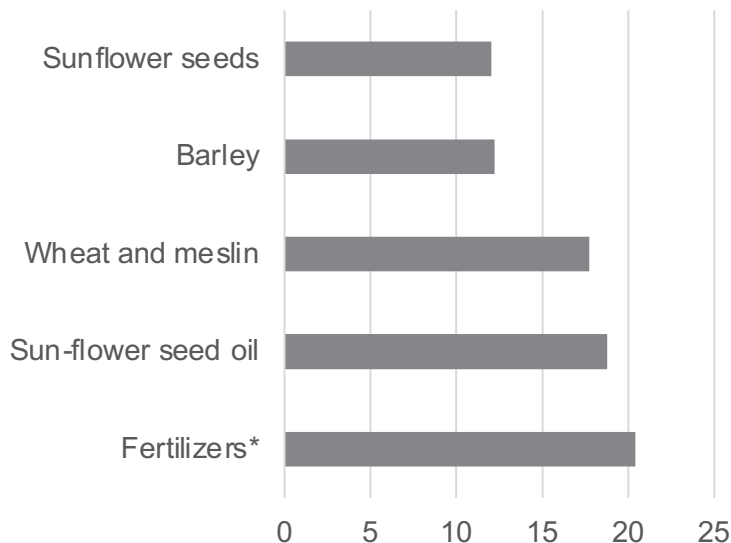
\* Excluding unallocated value.

Source: State Statistics Service of Ukraine, National Bank of Ukraine.

## Impact of War: Global Food and Metals Markets

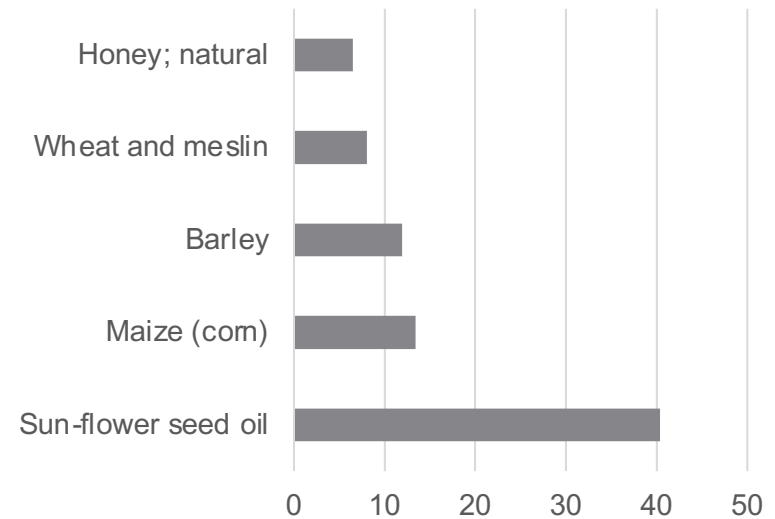
- Ukraine alone exports about 10% of all wheat and 16% of all corn in the world; Russia accounts for 18% of world wheat exports
- Ukraine is fifth largest exporter of iron ore in the world
- Future large production and export shortfalls are unavoidable

Shares of Russia in world exports in 2020, %



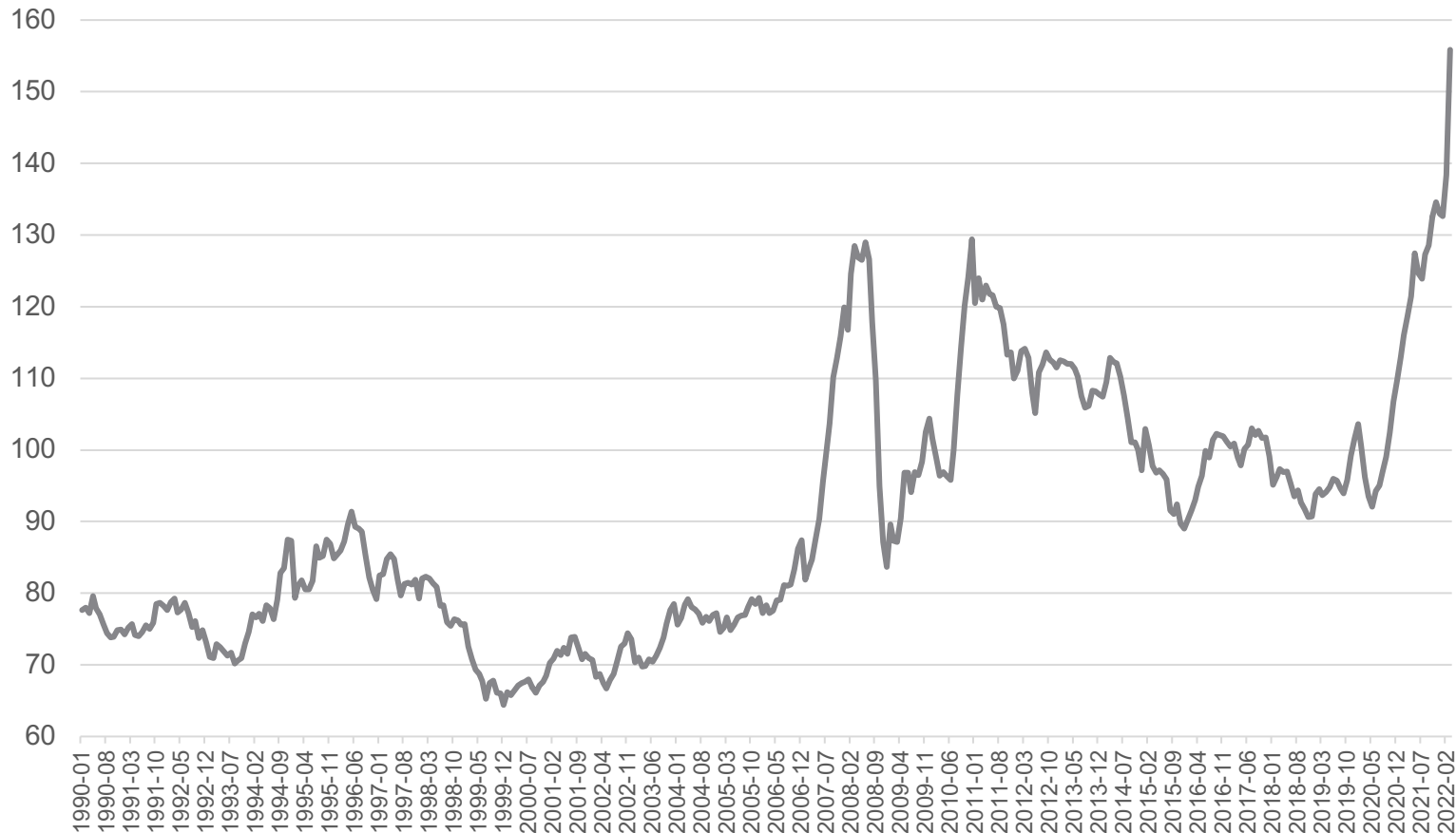
\*Together with Belarus  
Source: UN Comtrade

Shares of Ukraine in world exports in 2020, %



# The FAO food price index is at its highest levels ever

Real FAO Food Price Index, 2014-2016=100



## Metals prices are on the rise as well

Global prices of iron ore 62% Fe, USD



## Impact of the war: Global fuel markets

- Russia is an important exporter of oil and gas
- Both supply and demand factors at play
- Substantial rise in uncertainty

Price of Brent Crude oil, USD



Price of natural gas, USD

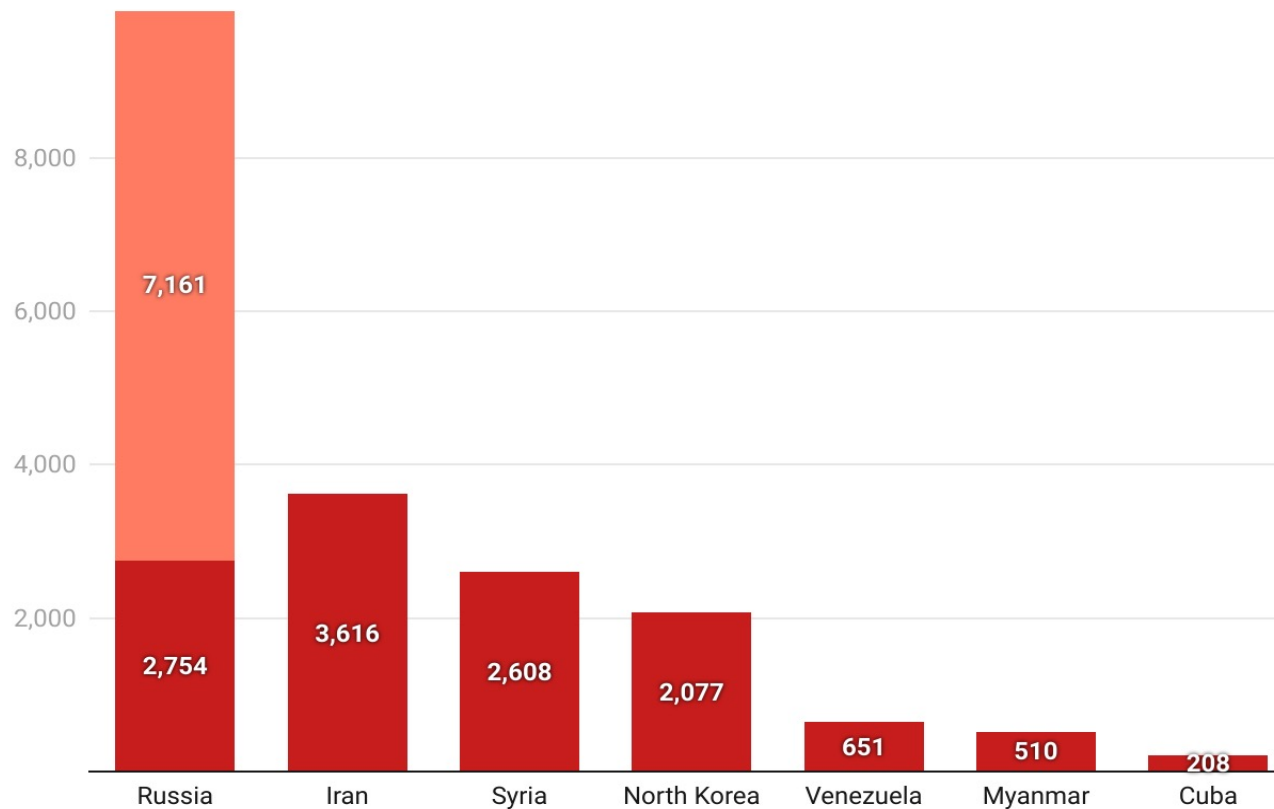


Source: Financial Times

# Russia is now most sanctioned country in the world

Number of sanctions

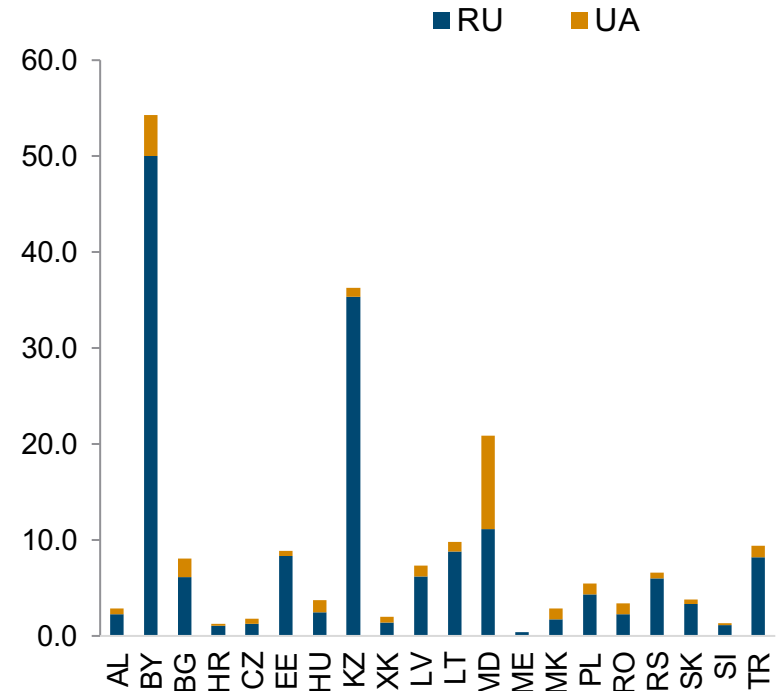
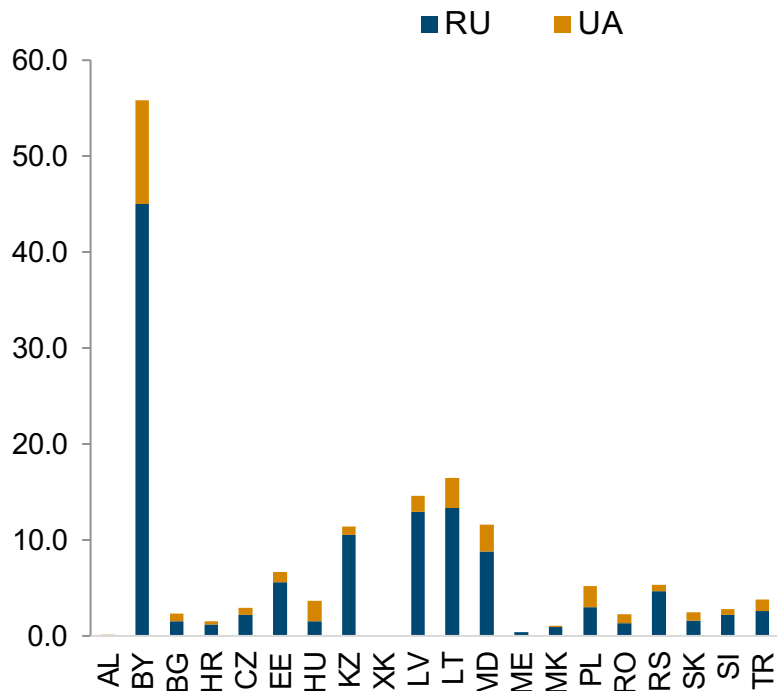
■ Before 22 February ■ Since 22 February



Source: Castellum.AI • Created with Datawrapper

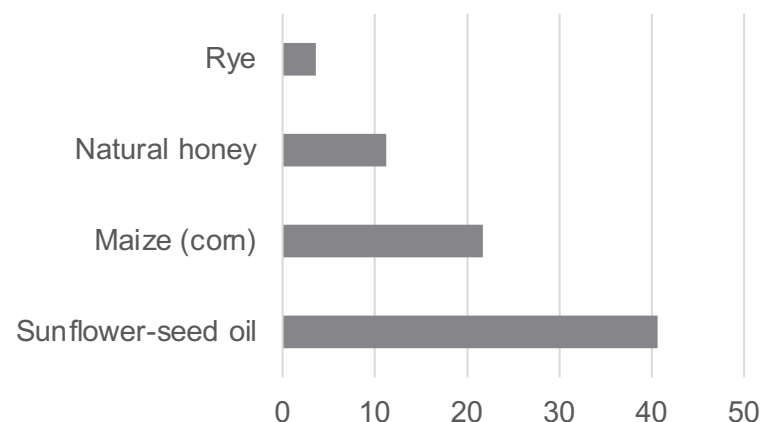
## Trade impact: Most countries have limited exposure, reflecting partial de-coupling since 2013

Exports to (left) and imports from (right) Russia and Ukraine, 2020, % of total

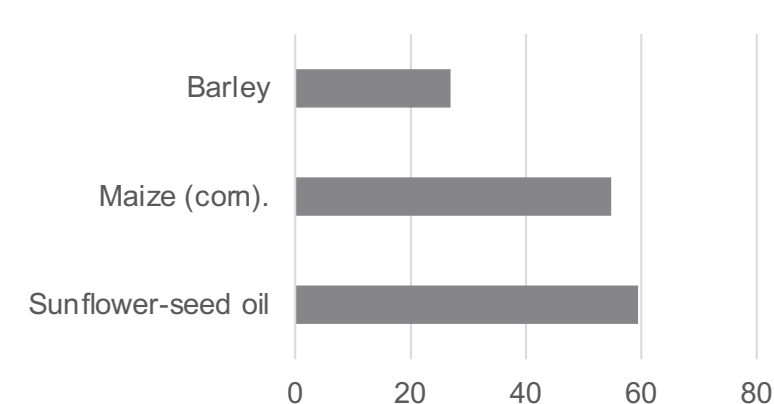


# EU affected both through direct imports and indirectly - UA

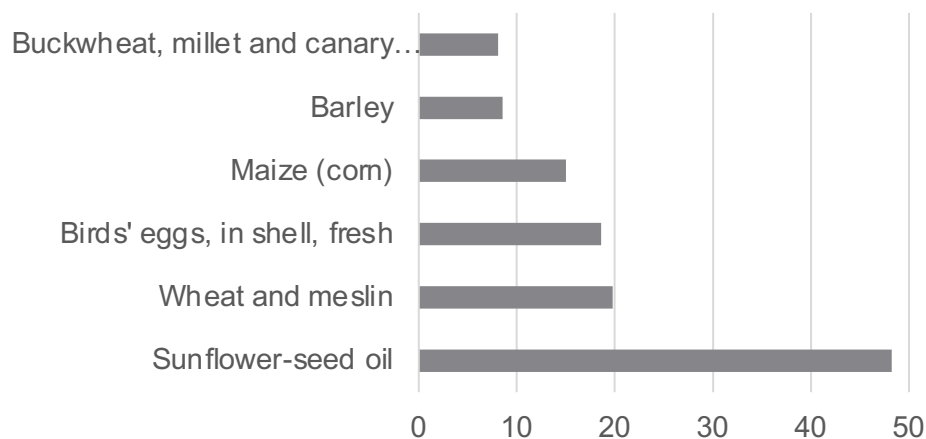
EU imports, share of Ukraine in 2021, %



China imports, share of Ukraine in 2020, %

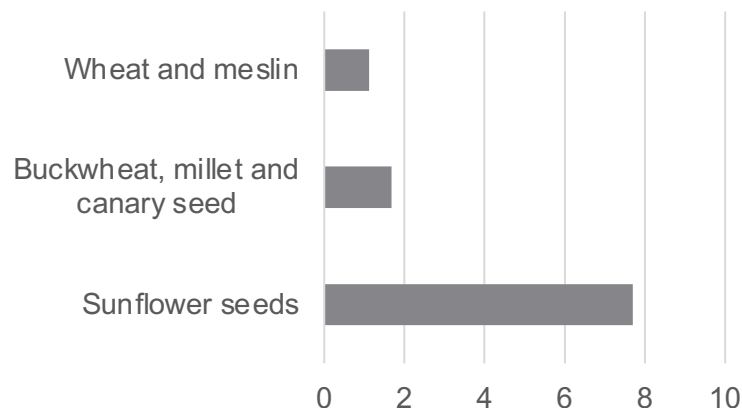


MENA imports, share of Ukraine in 2020, %

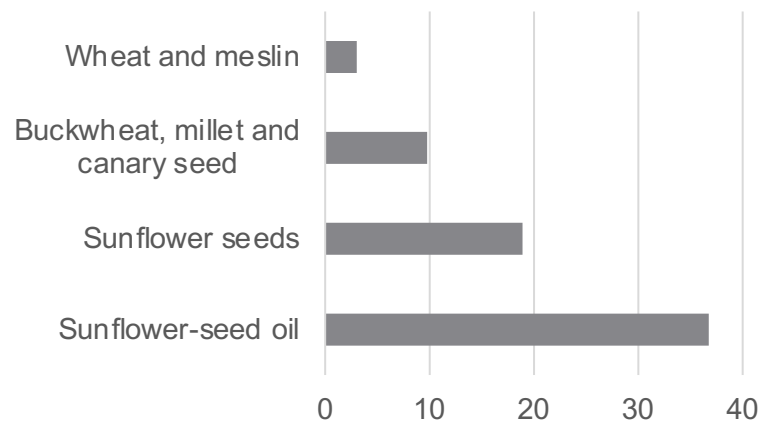


# EU affected both through direct imports and indirectly - RU

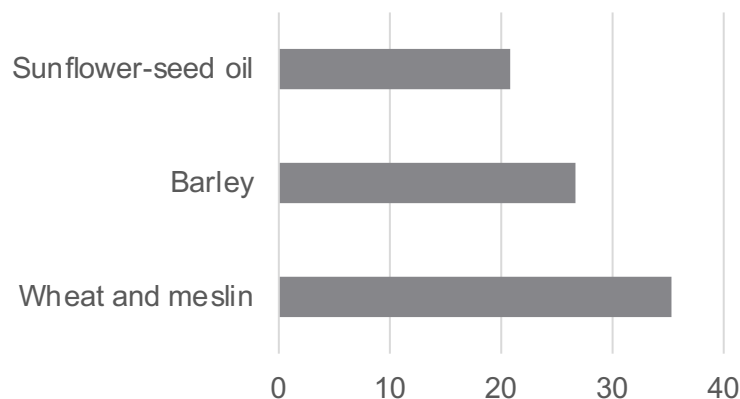
EU imports, share of Russia in 2020, %



China imports, share of Russia in 2020, %

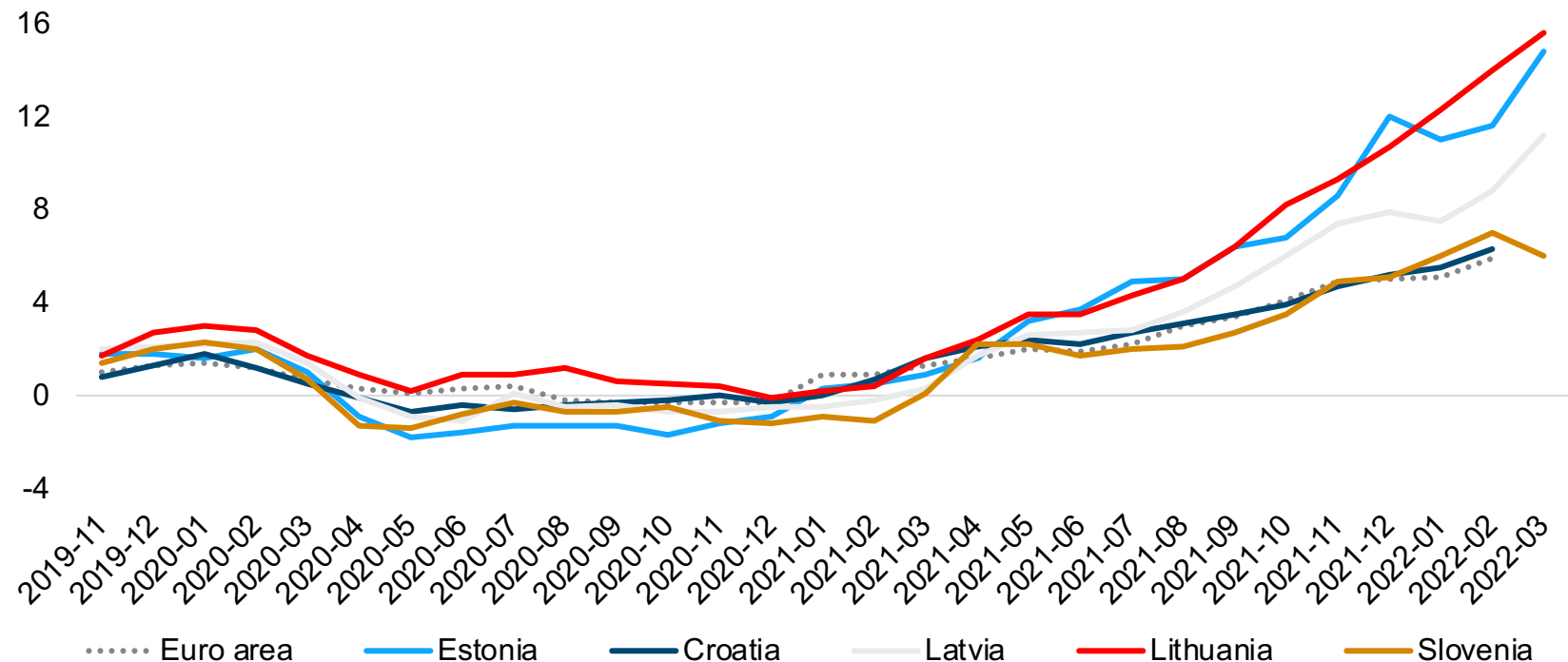


MENA imports, share of Russia in 2020, %



For CEE, main impact will be higher inflation and lower growth: GDP downgrades likely 1-2pp in CEE in 2022

Harmonised index of consumer prices, % change, year on year

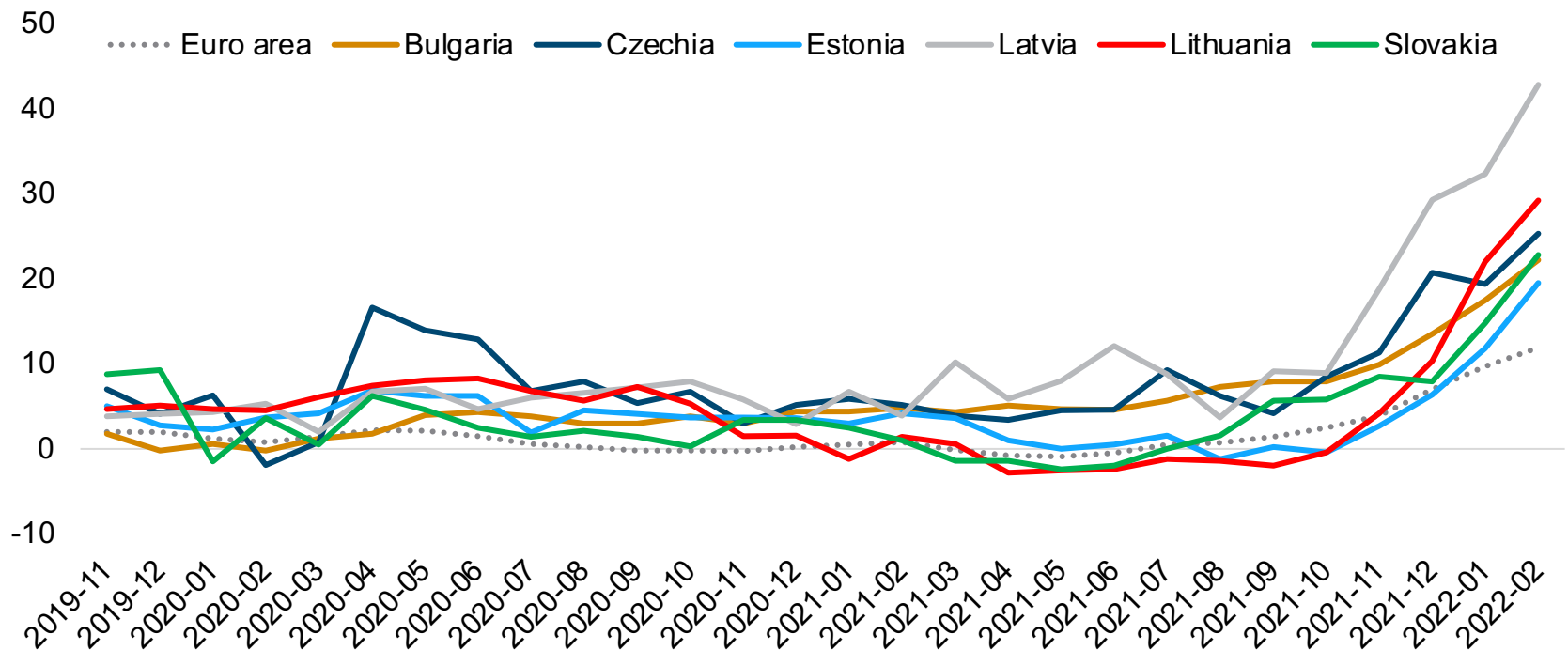


Note: Country selection includes highest and lowest rates of inflation among EU-CEE countries.

Source: Eurostat.

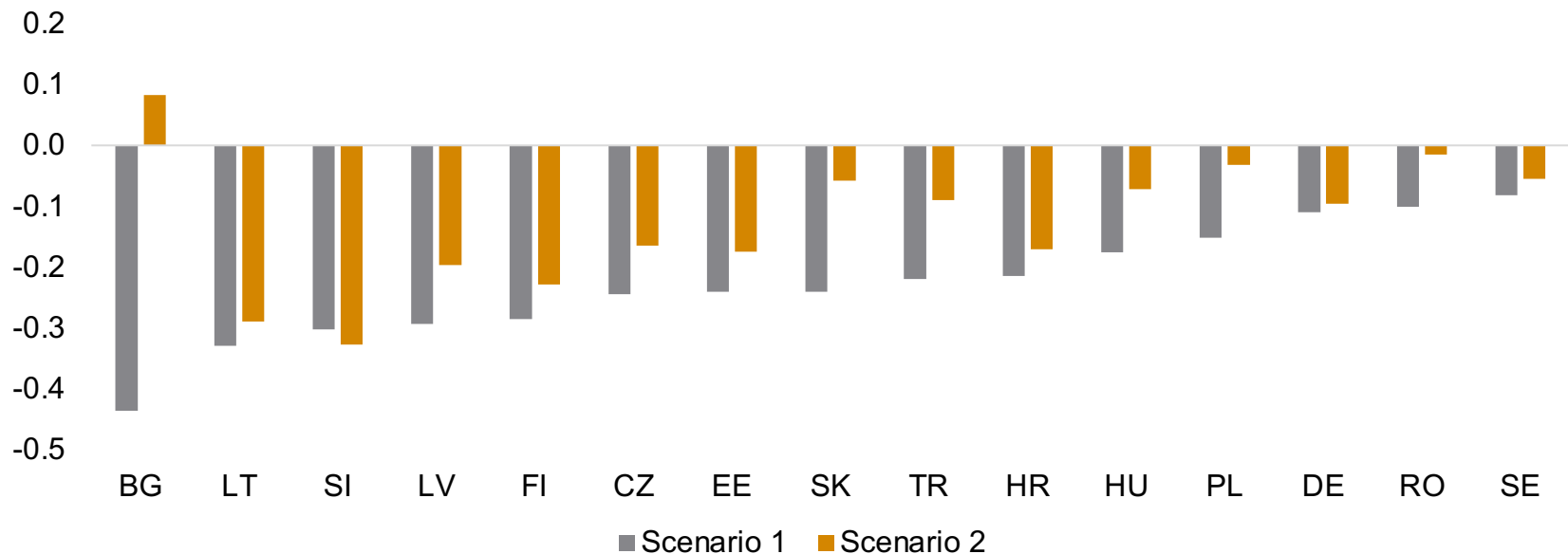
# Food prices a big issue, especially for poorer households – governments increasingly considering controls

Harmonised index of consumer prices; flours and other cereals; % change, year on year



## Quantifying the trade impact: Very limited (as long as the gas keeps flowing)

Impact of decline in Russia demand on GDP of selected EU + CEE countries, percentage points

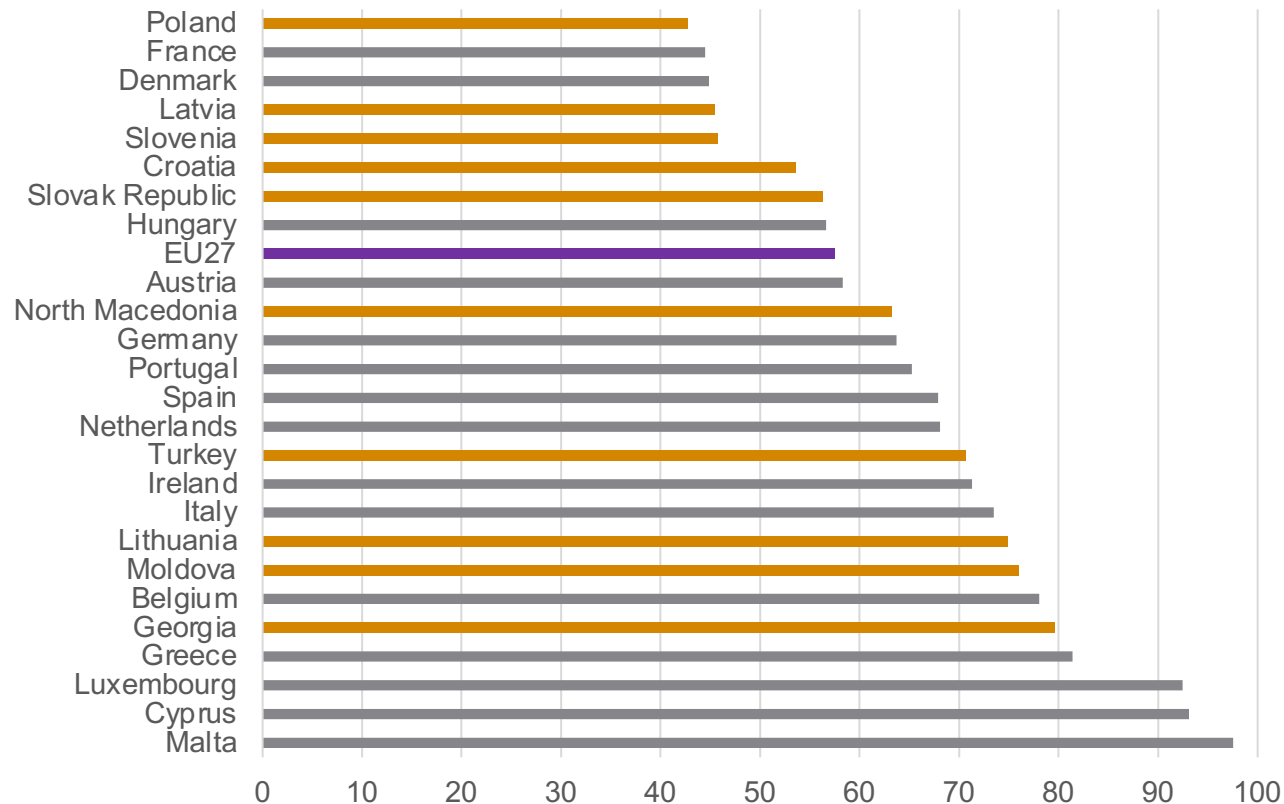


Note: Left-hand charts shows pp impact on real GDP in the event of a decline in Russian demand of 10%, a decline in Russian imports of 30% and a decline in Russian final goods exports of 13%. Scenario 1 = decline in Russian final goods exports can be substituted by importing countries with domestic production or imports from other countries. Scenario 2 = allow for changes in the sourcing structures by applying the 'partial global extraction method'

Source: OECD TiVA database, Release 2021, own calculations.

# Many countries are dependant on energy imports

Energy dependency, in % of total, 2020

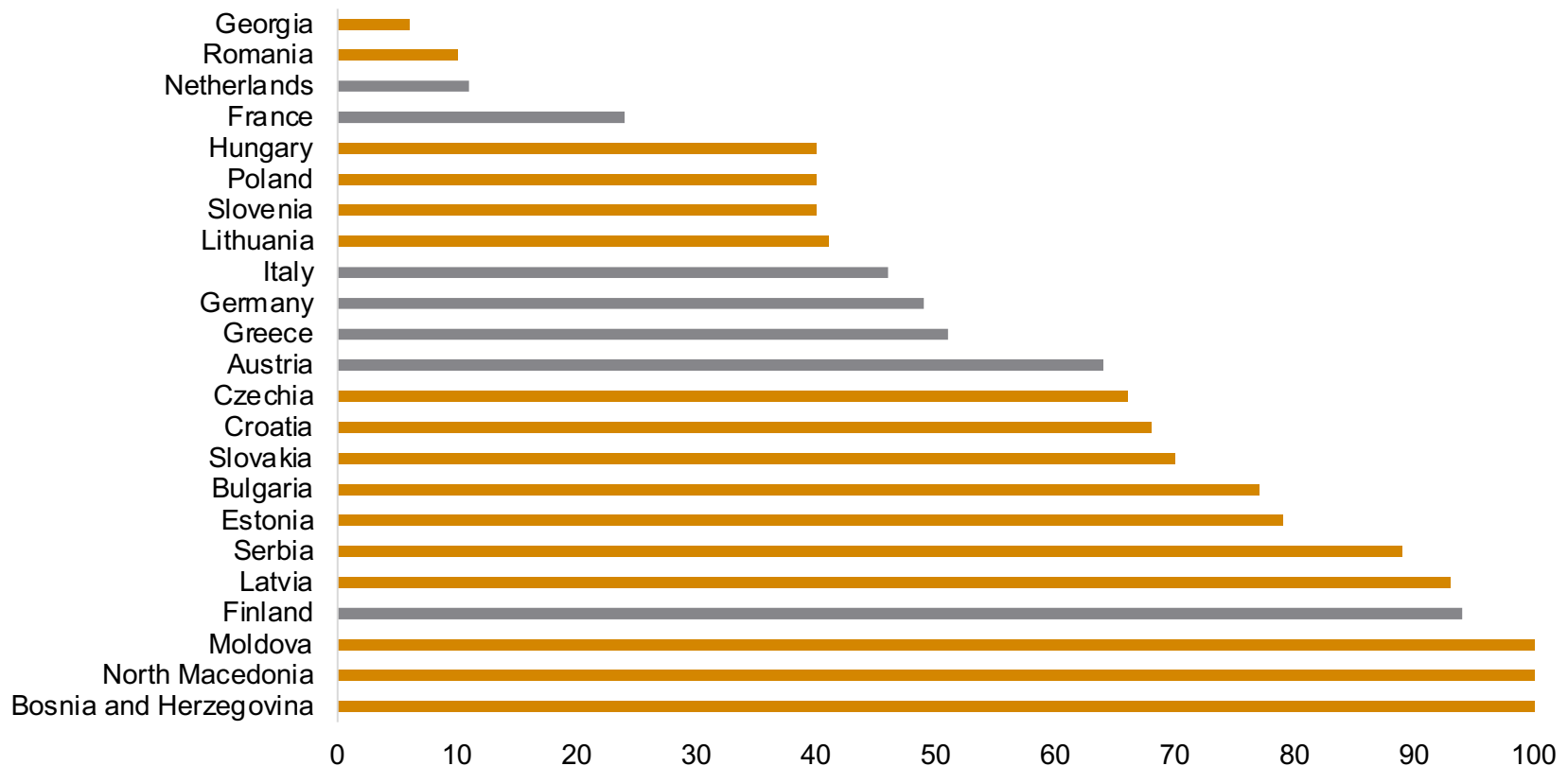


Note: The dependency rate shows the extent to which an economy relies upon imports in order to meet its energy needs. It is measured by the share of net imports (imports - exports) in gross inland energy consumption.

Source: Eurostat.

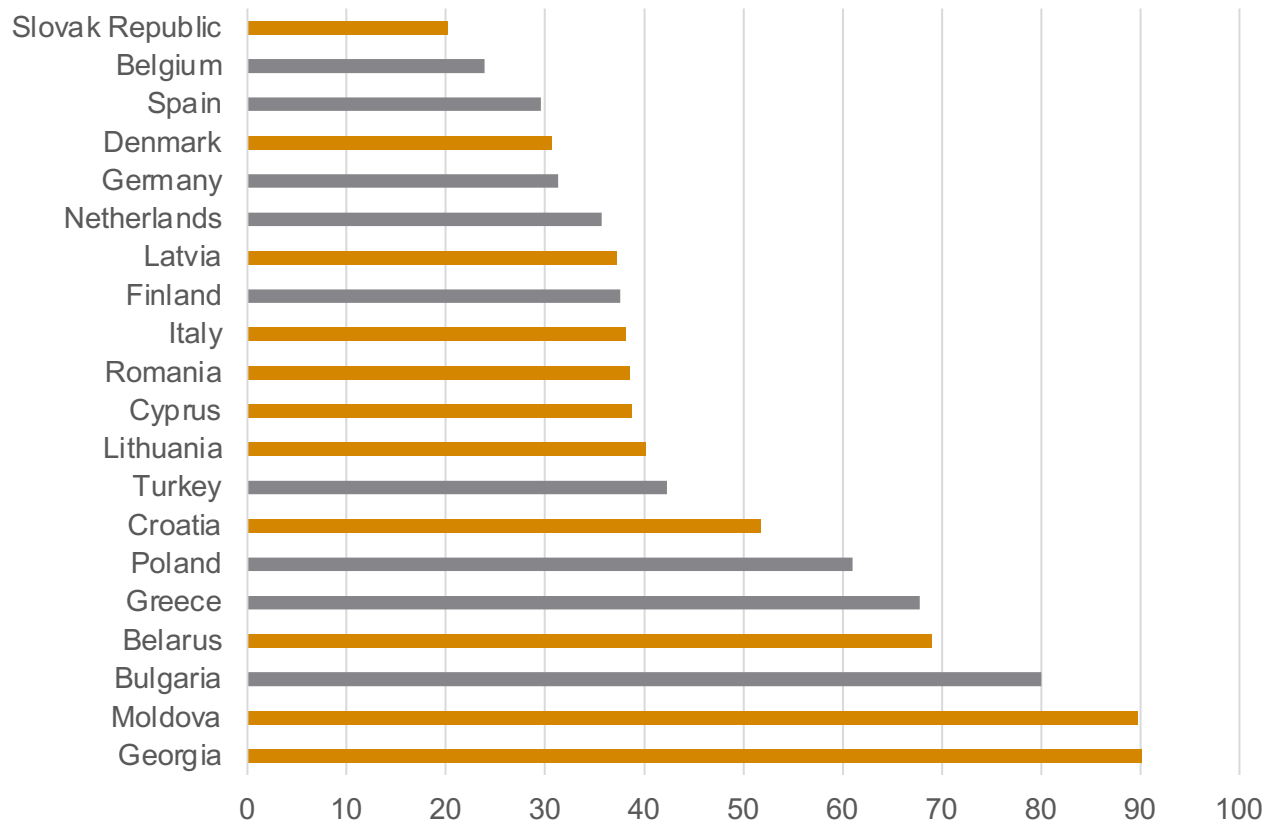
## Russia is an important source of energy imports - gas

Share of gas supply from Russia, in % of total, 2020



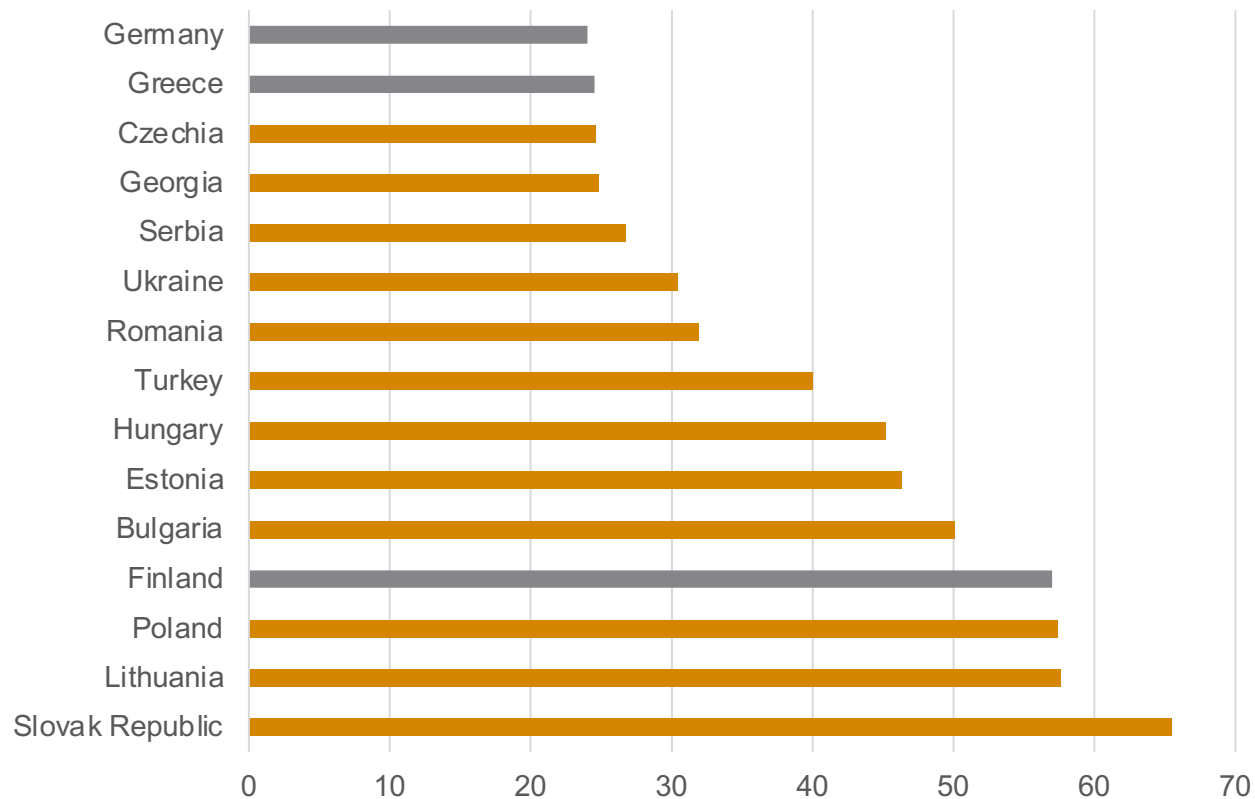
## Russia is an important source of energy imports - coal

Shares of Russia in imports of coal, coke and briquettes in 2020, %



## Russia is an important source of energy imports - oil

Shares of Russia in imports of petroleum and products in 2020, %



# Impact of a stop in EU energy imports from Russia

- Stopping Russian energy imports would be difficult and costly, but feasible
  - Complete interruption of Russian oil and coal less painful for the EU (*Bruegel Blog, 17 March*)
  - Embargo's impact on Germany projected GDP losses between 0.2% and 2.2% (*group of top German economists led by R. Bachmann*); 5% - *Bundesbank*
  - Parts of EU-CEE more exposed.

Macroeconomic effects of Germany stopping Russian energy imports

	Baqee-Farhi (2021), full model	Simplified model, 10% oil, gas, coal shock	Simplified model, 30% gas shock
GDP, %	0.2-0.3	1.3	2.2
GNE, %	0.2-0.3	1.5	2.3
Cost per citizen	€80-120	€500-700	€800-1000

Source: Bachman, R. et al (2022), "What if Germany is cut off from Russian energy?"

- There is fiscal space to cushion the blow for poorest.
- Significant coordination and logistical problems will have to be tackled.

## First thoughts on the medium term

- World changed within a week, there will be no going back. A paradigm shift in European security: reaffirmation of NATO presence in region.
- Russian economy is likely to remain isolated from the West.
- Investor sentiment in parts of EU-CEE could be affected.
- Policy priorities in the EU:
  - Measures to support poorest households through spike in energy + food prices
  - Acceleration of green transition (not always popular in CEE) and increased energy efficiency

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